



CITY OF PULLMAN

HIGH Tech, HIGHER Education, HIGHEST Quality of Life

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MEMORANDUM

TO: City Councilmembers and the Citizens of Pullman

FROM: Glenn A. Johnson, Mayor

RE: Mayor's 2010 Budget Message

DATE: November 5, 2009

As we present the 2010 preliminary budget for consideration by the City Council and the public, we all recognize that we continue to face significant financial challenges. The "Great Recession," as it has been termed officially, started in December 2007. The state of Washington thankfully was not impacted as early or as greatly as many other states. However, the state budget started a rapid slide late in 2008. As you will remember, on September 19, 2008, it was announced that the state faced a potential \$3 billion deficit for the 2009-2011 biennium (July 1, 2009-June 30, 2011). By December 4, 2008, the projected shortfall had risen to \$6 billion. By June 2009, the deficit was projected to be \$9.5 billion. State revenues are continuing to deteriorate, but at a slower pace. Additional cuts will have to be made in the 2010 session in order to address these challenges.

Although the "Great Recession" is believed to have ended during the latter part of the third quarter in 2009, it is recognized that governmental budgets will lag behind in terms of recovery. Washington State University has already cut \$54 million from its budget, eliminated 359 positions and with the shortfall still projected in Olympia may be directed to take further cuts.

The city of Pullman has not escaped the national or state recession but we have not been as negatively impacted as either the state or the nation thus far in terms of our city budget. Part of the reason for this is that we have taken a very cautious approach and have monitored our economic and financial conditions closely. Last year's preliminary budget message stated:

During these challenging financial times, we recognize that there have been troubling signs of economic problems at the global, national, state, and local levels. We cannot, and indeed have not, ignored the situation. To the contrary we have taken definitive steps to ensure that we are carefully monitoring our current year's budget and proceeding in a very conservative manner in crafting the 2009 budget.

At City Council meetings in 2009, we continued our regular updates on current economic conditions and the city's financial situation. At these updates it was noted that 2010 would likely be an even more challenging budget year. For example, as part of his presentation at the June 30, 2009, City Council meeting then Finance Director Troy Woo stated:

The current financial situation has weakened since the 1st Quarter Financial Report, but it is not time to panic. 2010 will likely be more challenging than 2009.

In its adopted 2009 City Council goals, the City Council adopted a goal that emphasized carefully monitoring this year's budget and how to proceed in crafting the 2010 budget. This adopted City Council goal stated:

Continue to carefully track financial trends and apply year-end reserves to address the 2010 budget. Be prepared to respond promptly and appropriately to city revenue shortfalls or expenditure increases that would trigger changes in the adopted 2009 budget.

At the first pre-budget workshop on September 15, 2009, we received consensus from the City Council for implementing certain strategies to help balance the 2010 preliminary budget. The staff memorandum stated:

With respect to the 2010 preliminary budget, certain strategies for balancing the budget have already been identified. As was noted in your 2009 adopted City Council goal, one strategy is to apply year-end reserves to address the 2010 budget. A second strategy is to keep capital expenditures to a minimum. In the Capital Improvement Program (CIP) public hearing on July 21, 2009, the City Council agreed to keep major capital projects to a minimum within the General Fund. Accordingly, the only projects recommended for 2010 funding within the General Fund portion of the 2010 budget were the third year of the police in-car video equipment replacement (\$22,500), the second year of the five-year fire defibrillator capital lease program (\$29,431), and the usual 10% Metropolitan Park district set-aside for capital projects (\$59,296). We are also looking to keep 2010 expenditures down by keeping Equipment Rental Division (ERD) and Government Buildings rates low.

At the pre-budget workshop on September 15, the City Council also approved the recommendation that, with the exception of uniformed police employees whose contract is settled for 2010, we will reflect 0 percent salary increases for the other bargaining units for the 2010 preliminary budget, pending the settlement of their labor contracts. Benefit costs in all departments reflect the decrease in employer pension contributions the legislature approved. These pension contributions will rise again substantially in July 2011.

At the City Council meeting on October 13, 2009, another pre-budget workshop was conducted and a public hearing was held on 2010 revenues. For the General Fund, Finance

Director Bill Mulholland projected that 2010 revenues would be lower than in 2009. He projected 2010 General Fund revenues at \$128,928 below the amended 2009 budget. This represents a revenue decline of -0.9 percent. This negative revenue figure reflects the impact that the recession has had on a variety of important economic indicators. The Consumer Price Index (CPI) that we use for various contracts is the May-June Seattle-Tacoma-Bremerton Urban Wage Earners and Clerical Workers (CPI-W) index. The Seattle CPI is the only CPI index available within the state of Washington. This May-June 2009 Seattle CPI index was -0.7 percent. The Implicit Price Deflator (IPD) that is used for 2010 property tax calculation under the provisions of Initiative 747 was released in September. The IPD was also a negative number at -0.848 percent.

One of the major issues discussed at both the pre-budget workshops was whether or not to raise the 2010 property tax by 1 percent. All of the other cities and towns in Whitman County can raise the property tax by 1 percent because they are under 10,000 in population. Because Pullman is over 10,000 in population, a resolution must be passed by a supermajority of our City Council in order to increase the property tax next year by 1 percent. This final decision on this issue will be made by the City Council at the City Council meeting on November 17. By comparison, neighboring Idaho and Oregon can both increase their property tax by 3 percent annually. If the City Council fails to increase property taxes by 1 percent, it will create an additional General Fund revenue loss of \$84,732.56 for 2010.

The preliminary budget as it is being presented does include the 1 percent property tax increase for 2010. Even with this proposed property tax increase, the 2010 General Fund budget is down substantially. Included within the General Fund are departmental expenditures for police, fire, parks and recreation, administration/finance, planning, engineering, building inspection, the library as well as capital transfers. For 2010, the proposed budget for the Operational portion of the General Fund is \$15,214,748. This represents a 3.5 percent decrease from the amended 2009 General Fund Operating Budget. The total General Fund Budget for 2010 is \$15,396,529. This represents a 3.7 percent decrease from the 2009 total General Fund budget. As has been the case in past years, even with this budget decrease the General Fund budget will still have to be balanced out of reserves or savings. By the end of 2010 it is projected that the General Fund reserve will drop to 11.36 percent. This is below the City Council target of maintaining a 13 percent reserve.

The total city budget for all funds for 2010 is \$45,903,608. This represents a -0.3 percent decrease from the 2009 amended budget.

In spite of the defeat of Initiative 1033, it is clear that 2010 will still be a very challenging budget year. Our intent is to try to maintain as many valued city services as possible with the hope that the economic recovery from the "Great Recession" will continue. We obviously do have concerns about issues such as further budget cuts at WSU. However, we are also very hopeful that our local retail base will continue to expand, such as through the construction of the new Walmart store.

I would like to commend the City Council and staff for their efforts to manage this economic crisis. Through careful monitoring and prudent decision-making we have been able to thus far avert the deep cuts, including the layoffs or furloughs that many organizations have had to implement. I would also like to thank the public for their understanding and support. Although there are valid concerns about potential future budget threats, we have stayed the course rather than contributing to the economic downturn through a panic reaction. Decisions made by city management and previous councils following the adoption of Initiatives 695 and 747 had already pared the budget with layoffs.

We would also like to express our sincere appreciation to our citizens for all the support they have provided in efforts to improve the community. Pullman will continue to be a great city in spite of our challenges because we have committed citizens and staff who are willing accept the challenge and move the community forward in a positive direction.